

13 March 1975

MEMORANDUM

SUBJECT: Situation in Panama

INTRODUCTION

Brigadier General Omar Torrijos is firmly in charge in Panama. Since 1968 he has made the decisions and set the policies. Torrijos has consolidated and legitimized his regime, earned for it a considerable degree of public approval, and maintained one of the highest economic growth rates in Latin America. He has worked particularly hard to gain the support of youth, peasants, and urban labor. He has substantially expanded educational opportunities, created a Labor Ministry, raised the wage level, and promoted low-cost food and housing programs. In his frequent trips to areas outside the capital, he has been cautious about making promises he is not certain he can fulfill.

Torrijos calls his government "revolutionary." The basic elements of this "revolution" seem to be a shift in power from the traditional political and economic elite -- the "oligarchy" -- to the middle and lower classes; a number of fundamental changes in the institutions of government; and a modification of social values and goals, with strong emphasis on nationalism. A key goal of his government is national integration, meaning not only the elimination of the Panama Canal Zone that physically divides the country, but also the integration of all Panamanians -- peasants, Indians, and slum dwellers as well as businessmen and wealthy farmers -- into the national society. Most of his policies have been rooted in a mixture of nationalism and populist reformism. The slogan "Neither with the right nor with the left, but with both hands for Panama" not only reflects his pragmatism, but also captures his approach to government.

Thus far, Torrijos has not seriously tried to alter fundamentally Panama's economic system based on international commerce and banking. To have done so precipitously would have provoked economic disaster

seem to prefer to have him in charge rather than one of their contemporaries. A handful of dissatisfied officers did attempt to oust Torrijos in 1968 and 1969, but none has challenged his leadership since. The officers of the Guard's General Staff continue to have at least a consultative role in national decision-making, and the commanders of the ten military zones into which Panama is divided are the most powerful local representatives of the national government. Their loyalty to Torrijos is based on his continued effective performance, and he makes frequent personal contacts at all levels of the Guard in order to reinforce his authority and his image of competence. He also uses the Assistant Chief of Staff for Intelligence, Lt. Col. Manuel Noriega, to keep a constant finger on the pulse of the Guard.

POWER GROUPS OUTSIDE THE GOVERNMENT

All elective offices in Panama are now filled on a non-partisan basis. Before Torrijos came to power there were at least ten parties competing for the voters' favor, although most were relatively weak and were active only at election time. The largest party -- the Panamenista Party -- was the personal vehicle of Arnulfo Arias, who although elected President three times has never completed a term. Since 1968 the parties, with one exception, have not been allowed to function. The 1972 constitution makes provisions for parties, but this has not been implemented. Although the government founded a political organization called the New Panama Movement in 1969, it has largely remained a paper organization, and Torrijos uses his frequent personal contacts with the populace and his channels through the National Guard to measure and sustain the regime's popularity.

The one political organization that has continued to operate is the People's Party, Panama's small, Moscow-line Communist Party. In part the People's Party's present influence derives from its opportunism. It alone among the country's parties was not hostile to the Guard's takeover of the government in 1968. Party leaders saw the coup as an opportunity to gain a measure of influence by allying with the Guard, offering their capabilities in the media and among students, labor, peasants, and community organizations to rally a militant clique in favor of the new government. The Communists know that Torrijos is using them,

but they believe that in the long run they will benefit from placing party members in some government jobs and trying to keep a hand in the labor and student ranks. However, the party lost some of its influence among students last year when leaders of the Panamanian Students' Federation shifted their primary allegiance from the Communists to Torrijos.

No national organizations have come forward to fill the vacuum left by the parties. Probably the closest thing to an organized pressure group is the National Council of Private Enterprise (CONEP), representing most important business and financial interests. By showing some degree of restraint, however, Torrijos has kept the business community off-balance. Things have never been allowed to get so bad that the private sector felt compelled to unite in a meaningful opposition to the government. Instead, Torrijos has kept the business community convinced that it has far more to lose through opposition than acquiescence. Nevertheless, when united, the business community can still exert considerable pressure on the government, because Torrijos is aware that economic prosperity is based on private sector investment. Torrijos' intuitive dislike for the old-line business leaders is likely to persist, however, and the business community will, on balance, remain wary of government intentions, but the current equilibrium is likely to continue. On the positive side, Torrijos has developed a rapport with, and made converts of, some of the younger businessmen.

Although relations between Torrijos and the Catholic Church were cool during the administration's early years, and worsened over the governments alleged involvement in the disappearance of an activist priest in 1971, the situation seems to have improved since then. Recently, the leading prelate, Archbishop Marcos McGrath, has voiced support for some of Torrijos' programs. The question of public versus private education seems the most likely to generate friction between the church and the government in the long run.

THE ECONOMY

Panama's rate of economic growth, which was the highest in Latin America during the 1960s, has slowed somewhat during the 1970s. Although its performance

remains relatively good, inflation and other external pressures are having an increasing effect. Panama has a relatively open economy, in which the important roles of international commerce, external financial resources, and tourism would mean that the country would be considerably affected by any world economic decline.

During the past several months the government has taken steps to combat inflation, to get people to work harder, and to boost foreign exchange earnings by increasing exports. Torrijos has labelled 1975 "The Year of Productivity." The exhortations for belt-tightening have gotten a favorable reception -- at least publicly -- from management and labor, but protests are certain to be heard when the time for making sacrifices actually arrives.

The Torrijos government has been much more inclined than previous ones to stimulate economic growth through public investment. Government capital spending has been particularly aimed at developing infrastructure, housing, and agriculture. The government now plans to invest \$2.4 billion in these areas over the next five years.

Probably the most positive aspect of the Panamanian economy since 1968 has been the country's development as an international banking center. This has been made possible by Panama's liberal banking law, its advantageous location, good communications and transportation facilities, absence of exchange controls, and use of the US dollar as the national currency. Panama is especially attractive to depositors from South America because it is the principal banking center using the Spanish language. Since 1970, when the new banking law went into effect, the number of banks licensed in Panama has increased from 25 to 63, with assets in the country of over \$5.6 billion. About four-fifths of these banks are subsidiaries of foreign financial institutions, including most of the largest in the US. A possible drawback to Panama's role as a banking center is that in the event of an international financial crisis the foreign deposits in Panama could quickly be withdrawn.

An increasingly important asset for Panama is the Free Zone at Colon at the Atlantic terminus of the canal. Several hundred million dollars worth of goods pass

through it each year; the amount is increasing by about 20 percent annually. The Panamanians claim the Free Zone would be more beneficial if it could be expanded into an adjacent area now held by the US.

FOREIGN RELATIONS

General Torrijos feels there are only two other "revolutionary" regimes left in Latin America -- the Velasco government in Peru and the Castro government in Cuba. He looks on Velasco as somewhat of a "brother"; both took power in October 1968 and both are determined to carry out basic economic and social changes. Torrijos made a point of visiting Lima during his first major foreign swing last year.

Torrijos values his friendly relationship with Fidel Castro as certification of his "revolutionary" credentials. For several years the two countries have had extensive cultural interchanges, and recently a modest amount of trade has been developing. Diplomatic relations were established last August. There are approximately 20 Cubans attached to the embassy in Panama City, and there are some small Cuban technical assistance teams working on projects such as improving sugar production in the interior. Torrijos seems to have given the Cubans strict guidelines about what they can do in Panama, and is watching them to make sure they comply. There is no information to indicate that the Cubans in Panama are supporting any extremist or subversive group in that country, or that they are using Panama to train any foreign groups.

Panama has diplomatic relations with most Eastern European Communist nations, but not with the Soviet Union or China. Trade delegations from both countries have visited Panama, and Torrijos' policy of having relations with as many countries as possible may lead him to add the last two major powers to the list.

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No. 0543/75
March 25, 1975

MEMORANDUM

SUBJECT: Prospects for Change in Peru's Leadership

Recent events, including the violence in Lima on February 5 and President Velasco's stroke on February 28, are creating an atmosphere of uncertainty and restlessness within the Peruvian military.

[redacted] there apparently is concern at the cabinet level that important government programs are receiving insufficient attention. In this environment, we are likely to see increased pressure for Velasco to begin transferring his presidential duties to a successor. There are also likely to be new government initiatives designed to build civilian support for the regime. We do not expect any decisive resolutions of these problems very soon, but the uncertainties surrounding the President's health, coupled with his apparent unwillingness to leave office and continued disagreements over government reforms, will cause serious tensions over the next several months.

Velasco's Position

[redacted] Velasco reportedly is resuming his duties, but if he is incapacitated again, even for a short time, we expect military leaders to demand that he step down and be succeeded by another army officer, most likely Prime Minister Morales Bermudez. If Velasco remains in office but is

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unable to continue his decisive leadership, pressure for a change is likely to become acute, possibly irresistible. In any event, Velasco's reported desire to die in office rather than step down is likely to increase the sense of unrest in the officer corps, where a premium is placed on firm leadership and certainty of command. Many officers already might prefer to see Velasco step down gracefully rather than have the country continue under an ailing president.

Velasco has been the country's only president since the armed forces overthrew the previous civilian government in October 1968. During these years, he has been a strong leader and has set the tone for all major foreign and domestic policies. He has avoided designating a successor, however, or establishing precise guidelines for choosing one.* This reflects Velasco's feeling that he personally must lead the revolution, and probably a concern that any officer who had sufficient military backing would not carry through radical domestic programs with the same zeal he has exhibited.

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**The Revolutionary Statute states only that a military officer will be appointed president by unanimous vote of the Revolutionary Junta, which is composed of the three heads of the armed services. The President is not a member of the Junta, which, on paper, is the highest decision-making entity in the government.*

Although there are important pressures on military leaders to come to grips with the succession issue, many generals still seem to be holding back. This reflects an understandable desire to postpone consideration of a successor president while the incumbent remains in office and probably still commands widespread respect, if not active support. In addition, President Velasco's oft-demonstrated ability to parlay intraservice disagreements into political advantage has worked to prevent a serious move to displace him or designate a successor.

Despite these factors, it is likely that there will be continuous pressure against Velasco's remaining in power. The President can be expected to resist and some of the more radical officers and his long-time associates will probably support him. Velasco simply does not appear in as strong a position as in the past, however, not only because of his medical problems, but because many officers may blame him for much of the increasingly vocal civilian dissent that culminated in the riots on February 5. In the past year, for instance, Velasco has undertaken a number of activities that have sparked civilian dissent and disapproval by other officers. These include the takeover of all national newspapers last summer, the closure of two popular weeklies, the outlawing of a major civilian party, the forced resignation of a navy minister and a number of subordinate admirals, and the start of a sweeping socio-economic reform program that has alarmed the middle class. Then, in February, the government's overreaction to a police strike caused widespread violent demonstrations in Lima for the first time since the military took power.

Morales Bermudez

During this period, Prime Minister Morales Bermudez has emerged as the strongest candidate to succeed Velasco, for the following reasons:

- He has a reputation for competence and integrity.
- His relatively moderate political views appeal to many other officers in all three services.
- He apparently has not been involved in petty plotting during his tenure as a top government-military figure.

--He is the most likely choice to allay the military's concern for maintaining its unity and stable leadership.

Morales Bermudez seems to be aware of his strength and for the time being apparently has decided to use his authority to convince Velasco and other ministers that the time has come for the President to begin delegating his duties. At this point, a sudden move to oust Velasco by Morales Bermudez is not likely.

However it occurs, Morales Bermudez' probable elevation to the presidency is not likely to be trouble-free. Velasco apparently doubts that the Prime Minister has sufficient "revolutionary" zeal and may still support a more radical officer such as General Graham Hurtado. Graham is a long-time presidential confidant and head of the influential Presidential Advisory Council, but his support within the army does not appear strong, and his backing in the more conservative navy and air force probably is minimal. There are probably one or two other radical generals who harbor presidential ambitions but none, including Graham, commands the widespread support that Morales Bermudez apparently enjoys. Velasco probably still commands sufficient support and respect among cabinet-level generals that he could delay Morales Bermudez' assumption of presidential duties, but time no longer appears to be on Velasco's side.

As president, Morales Bermudez would probably concentrate on consolidating rather than expanding domestic socio-economic reforms. Foreign policy, on the other hand, would remain essentially the same regardless of which general serves as president. We would expect Lima to follow its strongly nationalistic, Third World oriented policy, that has been tempered by economic realism in dealing with foreign investment and assistance. In large part, this is the result of Morales Bermudez' policies as economy minister, a post in which he served from 1969 to 1973. As President, Morales Bermudez therefore could be expected to emphasize these concerns and might be inclined to use a more cooperative approach in relations with Washington.

During its more than six years in power, the military has been unable to win the active support of the

majority of civilians, despite a sincere belief that it is working in their behalf. This lack of support is based on a number of factors, the greatest being, a general apathy toward national political and economic problems; an inherent distaste for authoritarian military rule; and continued strong allegiance to traditional civilian parties that are allowed no meaningful voice in the government. Adding to this is the military's apparent paternalistic attitude that it knows what is best for the people, who cannot be trusted with the future of the country. Despite the creation of a large number of civilian-staffed bureaucracies, including one to mobilize popular support, the military government remains largely isolated from the civilian population.

In order to build civilian support and to guard against further violent unrest, President Velasco--immediately prior to his recent stroke--reportedly began the formation of a pro-government political organization.* Although the plan envisages a long-range program of citizen education and organization, it probably has high priority as a result of the disorders on February 5. While the President's illness and convalescence may delay implementation of specific aspects of this program, there is probably sufficient support within the government to ensure that it will go ahead.

There already exist, however, serious disagreements over the scope and control of such an organization. For example, while Morales Bermudez is reportedly opposed to extensive military involvement in politics, other cabinet ministers see this as a means of boosting their own prestige and power in the government.

A key element affecting the success of this venture is the relationship between the pro-government organization and traditional political parties. Given the gulf between the military and civilian sectors, we do not expect that any political movement run by the military in competition with other parties--which still command wide followings--will achieve its

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goal in the foreseeable future. The only party of any national significance that strongly supports the military is the pro-Soviet Communist Party, and there are serious limitations on its ability to drum up support for a government party.

Given Morales Bermudez' current strong position in the government, and especially as he assumes more important leadership responsibilities, we may witness a gradual increase in government-civilian intercourse through the traditional political parties, particularly the American Popular Revolutionary Alliance (APRA). APRA is the country's most popular party and commands strong support among labor and agricultural groups. While it has been anathema to the military since an outburst of violence in the 1930s, the military leadership may be maturing to the point where it will realize that accommodation is necessary to the continuation of its reform programs. This process is more likely to be speeded up under Morales Bermudez than under the command of a more radical general.

Conclusion

In sum, we expect to see increased pressure on Velasco to step down or at least give up some of his responsibilities. Velasco can be expected to resist, but time is against him; if he stays on tensions within the military will increase and gradually erode his position. If Velasco suffers another stroke or other illness that incapacitates him even temporarily, we feel that he will probably not be allowed to resume the presidency.

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